

Fiscal Services Division

Legislative Services Agency

Fiscal Note

HF 919 – Gas Tax for Ethanol, Sunset (LSB 2805 HZ)

Analyst: Mary Beth Mellick (Phone: (515) 281-8223) (marybeth.mellick@legis.state.ia.us)

Fiscal Note Version – New

Description

House File 919 extends the current motor vehicle fuel tax schedule from June 30, 2007, to June 30, 2008. After that date, the excise tax on motor fuel will be a flat tax of 20.0 cents per gallon.

Background

Under current law, the tax rates for unleaded gasoline and E-10 are adjusted annually based on the number of gallons of ethanol-blended gasoline sold in the State. The tax rates are subject to change each July 1, depending on the percentage of ethanol-blended gasoline sold during the previous calendar year.

The following tax schedule was implemented on July 1, 2002, and is effective through June 30, 2007. After that date, the excise tax on gasoline will revert to 20.0 cents per gallon, and E-10 will increase from 19.0 to 20.0 cents per gallon.

Ethanol Marketshare Percentage	Ethanol Tax	Unleaded Gasoline Tax
0% - 50%	19.0	20.0
50% - 55%	19.0	20.1
55% - 60%	19.0	20.3
60% - 65%	19.0	20.5
65% - 70%	19.0	20.7
70% - 75%	19.0	21.0
75% - 80%	19.3	20.8
80% - 85%	19.5	20.7
85% - 90%	19.7	20.4
90% - 95%	19.9	20.1
95% - 100%	20.0	20.0

Since the tax schedule was implemented in FY 2001, the tax on unleaded gasoline has increased each year, reaching 21.0 cents per gallon in FY 2007. E-10 remains at 19.0 cents per gallon.

Under current law, regardless of the market share of ethanol-blended gasoline in CY 2006, the tax schedule will sunset on July 1, 2007, resulting in a flat tax of 20.0 cents per gallon beginning in FY 2008 for unleaded gasoline and E-10.

Legislation enacted during the 2005 Legislative Session created an independent tax structure for E-85. Prior to January 1, 2006, E-85 was taxed at the same rate as E-10, which was 19.0 cents per gallon. Beginning January 1, 2006, a 17.0-cent tax was imposed on E-85. The tax on E-85 for future years is subject to change each July 1, depending on the amount of tax paid during the previous calendar year. If the difference in the amount of tax paid in the previous calendar year compared to the amount of tax that would have been paid at the E-10 rate is equal to or greater than \$25,000, the tax on E-85 will revert to the amount specified for E-10 the following fiscal year.

Based on the amount of tax paid on E-85 in CY 2006 at 17.0 cents per gallon compared to the amount of tax that would have been paid using the tax rate imposed for E-10 (19.0 cents per gallon), the difference was greater than \$25,000. As a result, under current law, the tax for E-85 will revert to the amount specified for E-10 beginning in FY 2008, which is 20.0 cents per gallon.

Assumptions

- Based on the 69.3% market share for ethanol-blended gasoline in CY 2006, unleaded gasoline will be taxed at 20.7 cents per gallon and E-10 at 19.0 cents per gallon in FY 2008. Since, under current law, the excise tax for unleaded and ethanol-blended gasoline is 20.0 cents per gallon in FY 2008, the excise tax on ethanol-blended gasoline will decrease by 1.0 cent per gallon, and will increase by 0.3 cent per gallon for unleaded gasoline.
- E-85 will be taxed at the same rate as E-10 in FY 2008.
- For estimating purposes, the estimated number of gallons of unleaded gasoline, E-10, and E-85 sold in a calendar year 2006 is the same number of gallons that will be sold in FY 2008.

Fiscal Impact

The estimated fiscal impact of HF 919 is a decrease of \$7.9 million to the Road Use Tax Fund in FY 2008, resulting from a decrease in fuel tax revenues of the same amount. The decrease is based on the amount that is estimated to be collected from the excise tax on motor fuel in FY 2008 under current law, compared to the amount that is estimated to be collected in FY 2008 under HF 919.

The attached tables provide the estimated gallons sold, the fuel tax, and the total amount collected in fuel taxes under current and proposed law.

Source

Department of Revenue, Monthly Fuel Tax Reports

April 20, 2007

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Table 1 Gallons Sold In Millions						
	Unleaded	E-10	E-85	Total Ethanol	Total Gallons	Ethanol Market Share
CY 2006 (Actual)	505.3	1,140.9	1.5	1,142.4	1,647.6	69.3%

Table 2 Fuel Tax Cents per Gallon						
	Current Law			HF 919		
	Unleaded	E-10	E-85	Unleaded	E-10	E-85
FY 2008	20.0	20.0	20.0	20.7	19.0	19.0

Table 3 Total Collected in Fuel Taxes Dollars in Millions									
	Current Law				HF 919				Difference
	Unleaded	E-10	E-85	Total	Unleaded	E-10	E-85	Total	
FY 2008	\$ 101.1	\$ 228.2	\$ 0.3	\$ 329.5	\$ 104.6	\$ 216.8	\$ 0.3	\$ 321.6	\$ - 7.9